

Credit Union Department



NEWSLETTER

No. 03-05

www.tcred.state.tx.us

March 31, 2005

Upcoming Legislative Advisory Committee Meeting

The Legislative Advisory Committee is scheduled to meet on Friday, May 20, 2005. The meeting will convene at 9:00 am in the Department's conference room. Among the agenda items will be the mandatory review and consideration of Rules **91.103** (Public Notice of Department Activities), **91.104** (Notice of Applications), **91.105** (Applications for Authorization from the Commissioner), **91.110** (Protest Procedures for Applications), **91.120** (Posting of Notice Regarding Certain Loan Agreements), **91.201** (Incorporation Procedures), **91.206** (Underserved Area Credit Unions – Secondary Capital Accounts), **91.210** (Foreign Credit Unions), **91.1110** (Share and Deposit Guaranty Requirements), **91.3001** (Opportunity to Submit Comments on Certain Applications), and **91.3002** (Conduct of Meetings to Receive Comments). Although no major changes or additions are currently anticipated, the Committee is soliciting feedback from credit unions on the delineated rules.

The Committee will also take up and consider proposed amendments to Rules **91.101** (Definitions and Interpretations), **91.115** (Safety at Unmanned Teller Machines), **91.202** (Form of Bylaws; Amendments to Articles of Incorporation and Bylaws), **91.205** (Use of Credit Union Name), **91.209** (Reports and Charges for Late Filing), **91.1003** (Mergers/Consolidations), and **91.1004** (Conversion of Charter).

Appointments to the Commission

Governor Perry has announced the appointment of three individuals to the Credit Union Commission.

Barbara K. Sheffield of Sugar Land, is the president and chief executive officer of Members Choice Credit Union. A graduate of the executive development program at the Kellogg Graduate School of Management at Northwestern University, she is a member of the Texas Shared Services User's Committee, the Katy Chamber of Commerce and former director of the Houston Chapter of Credit Unions. Mrs. Sheffield, whose term will expire February 15, 2011, replaces Fran Hawkins of Robstown, whose term expired.

Thomas F. Butler of Deer Park, is the president of Butler & Company. A graduate from the University of Houston, Mr. Butler is a member of the Seabrook Rotary Club and volunteer for Youth Victim Witness. Mr. Butler, whose term will expire February 15, 2007, replaces James Burnett of Lewisville, who resigned his position on the Commission.

Henry "Pete" Snow of Texarkana, is a self-employed private investor. A graduate of the University of North Texas, he serves on the finance committee of Hospice of Texarkana and is past president of Twin Cities Toastmasters. Mr. Snow, whose term will expire February 15, 2011, will replace Carlos Puente of Fort Worth, whose term expired.

Overdraft Protection Guidance

The NCUA has issued guidance to assist credit unions with disclosure and administration of certain overdraft protection programs. The guidance issued in *Letter to Credit Unions 05-CU-03, Overdraft Protection (Bounce Protection) Programs*, is available online at <http://www.ncua.gov/letters/2005/CU/05-CU-03.pdf>.

Appraisal Guidance

The NCUA has issued guidance on appraisal independence through a series of questions and answers. The document provides clarification of existing standards in such areas as selecting an appraiser, ordering an appraisal, accepting a transferred appraisal and reviewing appraisals. The guidance issued in *Letter to Credit Unions 05-CU-06, Frequently Asked Questions on Independent Appraisal and Evaluation Functions*, is available online at <http://www.ncua.gov/letters/2005/CU/05-CU-06.pdf>.

Indirect Lending Programs

In an effort to boost loan volume and increase revenues, a growing number of Texas state-chartered credit unions are engaging in Indirect Lending programs with an automobile dealer or group of dealers. While an indirect program can be beneficial in achieving these two goals, if the program is not administered and monitored properly, delinquency, vehicle repossessions, and ultimately loan charge offs can easily climb. If the charge offs become excessive, a material lessening of the credit union's net worth may result. Due to the increased activity in this area and the pitfalls that can occur, credit unions should expect their indirect lending programs to receive increased scrutiny during future examinations.

Indirect lending programs require special oversight and controls that differentiate them from the typical new or used auto programs. A credit union should have specific lending and collection policies for the indirect program. Some of the areas that the policies should cover include: staff approval and limitations; charge back and repossessions guidelines; internal control structure; monitoring program; reports to management and the Board of Directors; and all aspects of the collection process.

A very important process credit unions need to perform is the monitoring of the indirect lending program. Failure to properly oversee the program is, or could become, a safety and soundness concern for the Department. A lack of sufficient oversight demonstrates that management is not meeting its responsibilities to plan, direct, and control the credit union's operations. Management reports should include the following for each individual dealer:

- Applications submitted, approved, conditioned, and denied;
- Total loans outstanding;
- Delinquency;
- Extensions;
- First payment defaults;
- Repossessions;
- Charge-offs;
- Average loan to value;
- Average loan term; and
- Average credit score.

These reports will enable the credit union to determine the concentration of loans, which dealers are responsible for the highest percentage of approvals/denials, and which relationships are bringing the credit union business. The Board must be kept abreast of the indirect lending programs performance to determine how it is impacting the credit union's financial condition. The materiality of the program to the credit union's operations and financial statements should dictate the frequency of reporting. For credit unions with new programs, rapidly growing portfolio or a portfolio that is a high percentage of Net Worth, monthly reports on the program are prudent.

Change 10, Rules for Texas Credit Unions

On April 1, 2005, Change 10 to update the Rules for Credit Unions will be mailed to all credit unions. The effective date of this revision is March 6, 2005. Additional copies of the rules or any updates may be purchased from the Texas Credit Union League, P. O. Box 655147, Dallas, Texas 75265.

How Are We Doing?

On March 21, 2005, the Department mailed a questionnaire to all state-chartered credit unions soliciting comments on such topics as the Department's examination process, examination report quality, and application procedures. Your feedback will provide valuable assistance in determining how the Department can serve you in the future.

Call Reports

Call reports and diskettes for the quarter ending March 31, 2005 will be mailed to each credit union on April 1st. Credit unions with assets under \$10 million have the option of submitting the 5300F short version or the standard 5300 call report. Credit unions with assets greater than \$10 million will continue to submit the standard 5300 version.

The call reports diskettes must be received in the Department's office or the data transmission files uploaded directly by "e-send" on or before **April 22, 2005**. Reports received after that date will be assessed a late fee.

Please direct any questions to Isabel Velasquez, Executive Assistant or Robert Baxter, Chief Examiner at (512) 837-9236.

Call Report Changes

As reported in NCUA's Letter to Credit Unions 05-CU-02, the call report program is being modified. As a result of the changes, beginning with the September 2005 call report cycle, **the program will no longer run on the Windows 95 operating system.** Credit unions will be required to have one of the following Microsoft operating systems:

- Windows 98
- Windows NT
- Windows Millennium Edition (ME)
- Windows 2000
- Windows XP

Also, the credit union's computer must have a CD-ROM drive, Microsoft Internet Explorer (Version 5.0 or higher), and 2 megabytes of free hard drive space.

Contact List Verification

Every month, our office needs to communicate directly with credit unions through e-mail. These communications consist of the Department's monthly newsletter or Regulatory Bulletins.

We ask that each credit union maintain on file with the Department an e-mail address for this purpose. You do not need to take any action if the e-mail delivering this newsletter is currently being delivered to the President/CEO of your credit union.

If there is a change, please notify us of that change by replying directly to Isabel.velasquez@tcud.state.tx.us

Publishing Notice of Applications in the Texas Register

In order to meet the submission deadlines for the applicable issues of the Texas Register, it is necessary for the Department to establish the schedule included below. Completed applications received after the deadline for the month cannot be published until the following month.

<u>Published In</u>	<u>Deadline for Receipt</u>
April, 2005	Friday, April 15
May, 2005	Friday, May 13
June, 2005	Friday, June 10

Happy Spring



APPLICATIONS APPROVED

Applications approved since February 28, 2005 include:

<u>Credit Union</u>	<u>Changes or Groups Added</u>
Field of Membership Change(s) Approved:	
Scott & White Employees Credit Union (Temple)	See Newsletter No. 01-05
Houston Postal Credit Union (Houston) (Amended) Persons who live, work, attend school or worship in and businesses located within 10 miles of each of the following branch offices: 6055 South Loop East, Houston, Texas 77087; 401 Franklin Avenue, Houston, Texas 77002; 4600 Aldine Bender Road, Houston, Texas 77032.	See Newsletter No. 01-05
Articles of Incorporation Change(s) Approved:	
Dresser Central Credit Union (Houston)	See Newsletter No. 12-04

APPLICATIONS RECEIVED

The following applications were received and published in the March 25, 2005 issue of the Texas Register.

Field of Membership Expansion(s):

MemberSource Credit Union (Houston) – To permit employees of Cypress Creek Pest Control, Inc., and their subsidiaries, affiliates or successors, who work in, are paid or supervised from Houston, Texas, to be eligible for membership in the credit union.

Texas Health Credit Union (Austin) – To permit persons who live, work, attend school, or worship, and businesses within 10 miles of the main office of Texas Health Credit Union located at 4800 Grover Avenue, Austin, Texas, to be eligible for membership in the credit union.

U. S. Employees Credit Union (The Woodlands) – To permit persons who live, work, worship, or attend school within a ten mile radius of the credit union's branch office, located at 9700 Richmond, Suite 150, Houston, Texas 77042, to be eligible for membership in the credit union.

Ward County Teachers Credit Union (Monahans) (#1) – To permit persons who live, worship, attend school or work in Ward, Brewster, Crane, Jeff Davis and Pecos Counties, Texas, to be eligible for membership in the credit union.

Ward County Teachers Credit Union (Monahans) (#2) – To permit persons who live, worship, attend school or work in Ector County, Texas, to be eligible for membership in the credit union.

Comments or a request for a meeting by any interested party relating to an application must be submitted in writing within 30 days from the date of this publication. Credit unions that wish to comment on any application must also complete a Notice of Protest form. The form may be obtained by contacting the Department at (512) 837-9236 or downloading the form at <http://www.tcred.state.tx.us/applications.html>. Any written comments must provide all information that the interested party wishes the Department to consider in evaluating the application. All information received will be weighed during consideration of the merits of an application. Comments or a request for a meeting should be addressed to the Texas Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752-1699.

Merger or Consolidation Change(s)

An application was received from **Neighborhood Credit Union** (Dallas) seeking approval to merge with **KGR Credit Union** (Dallas). **Neighborhood Credit Union** will be the surviving credit union.

An application was received from **City Credit Union** (Dallas) seeking approval to merge with **NorTex Federal Credit Union** (Gainesville). **City Credit Union** will be the surviving credit union.

Comments or a request for a meeting by any interested party relating to an application must be submitted in writing within 30 days from the date of this publication. Any written comments must provide all information that the interested party wishes the Department to consider in evaluating the application. All information received will be weighed during consideration of the merits of an application. Comments or a request for a meeting should be addressed to the Texas Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752-1699.